



10 JUN 1985

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS  
CHAIRMAN OF THE JOINT CHIEFS OF STAFF  
DIRECTORS OF THE DEFENSE AGENCIES  
DIRECTOR, WASHINGTON HEADQUARTERS SERVICES

SUBJECT: DoD Personnel Security Program Clearance and  
Investigative Reductions

There are currently approximately four million military, civilian, and contractor personnel who hold DoD security clearances. A large part of these have access to classified information on a continuing basis. These numbers alone suggest a vulnerability to compromise of such information.

The number of clearances awarded in DoD has climbed steadily for the last 10 years. Indeed, the number of personnel security investigations requested in 1984 represented a 50% increase over the number requested in 1975. Notwithstanding the fact that a good portion of this increase reflects recent growth in Defense contracting, it is clear that far too many clearances are being requested without appropriate justification. This, in turn, has caused great demands upon the investigative resources of the Defense Investigative Service, which performs personnel security investigations for the Department. These resources, in fact, have not kept pace with the burgeoning requests for investigations.

We must simply exert more management control to limit both the numbers of persons who already have clearances, as well as the numbers of persons being put in for clearances, to those who absolutely require access to classified information in order to accomplish the Defense mission. While I am aware that some steps have been taken in this regard, I am persuaded that there is more that should be done.

Accordingly, I am hereby directing (1) a 10% reduction in the number of cleared persons within DoD and defense industry, at each level of clearance, to be accomplished by October 1, 1985, deeper reductions may follow; and (2) a 10% reduction in the numbers of requests for background investigations submitted for FY 86 to be secured through reconsideration by those submitting these requests of the necessity of clearances for the individuals. For purposes

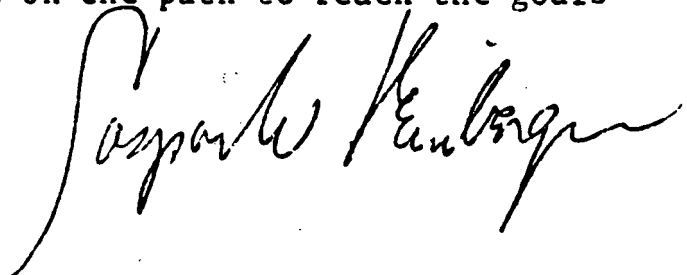
On file OSD release instructions apply.

of arriving at the first level of reduction, the numbers of clearances in effect at the end of FY 84 shall be used as a base (Enclosure 1). For purposes of arriving at the second level of reduction, the numbers of investigations reported during FY 84 shall be used as a base (Enclosure 2).

In ordering these reductions, it is not my intent that they hamper the Department in carrying out its assigned functions, nor is it my intent that they be implemented in a manner that might jeopardize the security of DoD operations. Indeed, the purpose is to eliminate what I perceive to be a serious security vulnerability--too many persons are cleared and being cleared who do not have a need for access to classified information. Accordingly, implementation of these reductions shall begin with identifying those within the Department and its contractual base who currently have security clearances but whose jobs do not ordinarily require access to classified information. The clearances of such persons should be terminated. In addition, where classified work can feasibly be performed with more limited staff involvement, then extraneous clearances should also be targetted as part of implementing these reductions.

I also note that these reductions are being parcelled out at DoD Component level. It is not expected that such reductions will be possible or appropriate for every office or activity within such Components. Rather, the reductions should be made by each Component taking into account its overall needs and staffing.

The Deputy Under Secretary of Defense (Policy) shall have overall responsibility for the implementation of this policy. With respect to industry, the Director, Defense Investigative Service, under DUSD(P) supervision, shall take such actions as may be appropriate to administer this requirement. In this regard, I ask the heads of all Components to cooperate in the implementation of this policy for all of their classified programs. I would like an interim report by August 1 as to how many reductions have been achieved by then and to be assured we are on the path to reach the goals set.



Enclosures  
a/s

DOD COMPONENT CLEARANCES

(FY 84)

<u>AGENCY</u>	<u>TS</u>	<u>S</u>	<u>C</u>
ARMY	117,841	734,234	17,429
NAVY	139,372	723,785	1,673
AIR FORCE	151,071	556,858	0
DCA	3,144	692	0
DLA	1,044	14,551	100
DMA	5,826	2,769	0
DNA	786	345	0
DCAA	159	3,596	0
OSD	3,274	1,292	4
DIA	5,000	0	0
OJCS	1,327	0	0
DIS	2,703	595	0
DISCO	128,405	971,912	304,904 <sup>1</sup>
RESERVE/ NATIONAL GUARD	<u>40,094</u>	<u>345,541</u>	<u>15,051</u>
	600,046	3,356,170	339,161

Footnote:

1 - This figure includes 300,000 - 400,000 persons who possess company CONFIDENTIAL

FY 84 NUMBERS TO BE USED AS  
BASIS FOR FY 86 10% REDUCTION

	<u>BI/IBI</u>	<u>SBI</u>
	<u>FY 84</u> <u>(Actual)</u>	<u>FY 84</u> <u>(Actual)</u>
ARMY	12,819	15,552
NAVY	14,838	12,202
USMC	2,570	1,382
AIR FORCE	14,112	16,456
OSD	343	182
JCS	17	261
DLA	123	53
DISCO	23,598	8,066
DIA	87	465
WHITE HOUSE	1	194
DCA	162	269
DCAA	52	54
DIS	38	412
DMA	39	1,227
DNA	98	46
NSA	7	2,757
MISC	<u>70</u>	<u>5,211*</u>
TOTALS	68,974	64,789

\* Consists primarily of YANKEE FIRE cases

ENCL 2

## ETHICS IN DEALING WITH CONTRACTORS

By the very nature of the Agency's mission, a broad spectrum of our employees must deal with the private sector on a daily basis. Such employees include contracting officers (CO) from the Office of Logistics (OL), industrial security officers (Office of Security), liaison auditors (Office of Finance), and project officers from the various components. This frequency of public contact in a commercial setting multiplies the opportunity for the compromise of ethical values. OL, in coordination with other Agency components who are responsible for their contract teams, is sensitive to this exposure and has taken affirmative steps to promote an attitude that "good ethics is good business."

The approach is both preventive and curative. A basic education of all procurement-related employees on ethical behavior standards is the first line of defense and the proverbial ounce of prevention. Periodically, Procurement Management Staff holds contracting ethics workshops which are open to all OL employees. These workshops include discussion of the Ethics in Government Act and its implementing regulation, Executive Order 11222, Standards of Ethical Conduct, and specific opinions by the Office of Government Ethics. These requirements are imposed on all Government workers by virtue of their Federal employment.

Additional requirements are levied on Agency employees more intimately associated with acquisition to promote the integrity of the procurement process. There are specific guidelines peculiar to contracting that cover matters such as gratuities, proprietary information handling, fairness in competition, and personal financial interest. They address the whole spectrum of relationships between contractor and acquisition personnel. Agency policy establishes a tone and attitude of dealing, sending an unmistakable message to contractors that Agency procurement methods and personal conduct must reflect integrity and honesty at all times.

Contractors take their cue from the Agency they are dealing with. This is perhaps the most effective method of assuring ethical behavior by contractors. If the Agency and its contracting personnel have high ethical standards backed by example, contractors are likely to respond by adopting the same behavior standards.

Marketplace and competitive realities also require that curative measures be adopted in those few cases where there is a breach of standards. First, all Agency contracts incorporate Federal Acquisition Regulation clause 52.203-3, which prohibits the tender or the receipt of any gratuity in connection with a contract; a breach of this provision can terminate a contract. Even more comprehensive treatment of contract ethical requirements is found in Part 3 of the CIA Contracting Manual. These provisions reflect the fact that most ethical failings involve personal financial interest. Secondly, Agency audit and program review procedures demand a level of accuracy and completeness in contractor recordkeeping, making it difficult for contractors to hide improper activities. Third, where significant issues arise from questionable business practices, Agency contractors, with the consent of the Office of General Counsel (OGC), are subject to administrative action which result in a higher level of approval for contract actions. In such cases, any further contractual agreement must be justified by the CO and approved by the Director of Logistics. Fourth, the Agency Contract Review Board is a review body with Agencywide representation at the senior level that brings together multiple disciplines and a wealth of experience in evaluating each major contract action brought before it. Fifth, all source selection participants must sign nondisclosure statements before serving in that capacity. Finally, in its basic training of acquisition personnel, the Agency conducts a Contract Process course, where extensive treatment is given to contract ethics requirements. Ethical questions and problems are included in the final exam for the course.

All Agency personnel engaged in the acquisition process are reminded early in their careers that ethical violations and the "appearance" of ethical violations are not that obvious. By subtle manipulation, at any stage of the contract formation process, the potential for compromise is always present. There is no substitute for experience in dealing with these subtleties. It is for this reason that the Agency provides a continuing forum for confidential advice on these matters through (1) supervisors, (2) designated Agency ethics officials [for the Deputy Director for Administration (DDA), it is the Executive Assistant to the DDA], (3) OGC, (4) the Inspector General, or (5) the U.S. Office of Government Ethics. In addition, each year every Agency employee must study the "required regulatory readings," a substantial portion of which is devoted to ethical standards and conflict of interest.

Notwithstanding the Agency's care and concern about ethical behavior, the ultimate authority is the personal integrity and good judgment of the individual. Every contractual relationship cannot be monitored and every meeting cannot be policed. There is no foolproof guarantee that everyone will follow ethical principles. Long experience in the field of intelligence has taught us the lessons of human frailty and the extent to which such weaknesses can be exploited. Our skepticism teaches us that we must "trust but also verify."

## SECTION 2. ACCOUNTABILITY SYSTEM

**5-200. General.** Contractors shall establish a records management system for all classified material in their possession as required by this Section.

**5-201. Central Control Station.** Contractors shall establish one or more central control stations to maintain certain accountability records for the classified material received by, generated by, or dispatched from, the cleared facility. Contractors shall designate employees to operate one or more control stations. Such employees shall be cleared commensurate with the level of their classified control responsibilities.

**5-202. Records for Top Secret and Secret.** The control station(s) shall maintain an accountability record of all TOP SECRET and SECRET material in the possession of the contractor. As a minimum the accountability record shall reflect: (i) the date of the document, (ii) the originating activity, (iii) the activity from which the document was received, if applicable, (iv) the date of receipt, if applicable, (v) the classification of the material, (vi) a brief, unclassified description of the material and (vii) the disposition (for example: destruction, downgrading, declassification or dispatch outside the facility, or incorporation in another accountability record) of the material and the date thereof. TOP SECRET records shall be retained by the contractor for 3 years from the date of disposition. SECRET records shall be retained for 2 years from the date of disposition.

a. **Special Records for TOP SECRET.** An up-to-date record shall be maintained of all persons who are afforded access (including visual or aural access) to TOP SECRET information. The record shall identify each item of TOP SECRET material and show the names of all individuals given access to the item and the date (or inclusive dates) on which access by each individual occurred. In the case of employees whose duties require knowledge of the combination of containers holding TOP SECRET material, the record need only identify the material, the employee(s), and the period of time during which access was available.

Such records shall be retained in the appropriate control station for 3 years from the date the material was destroyed, dispatched outside the facility, declassified, or downgraded.

b. **Continuous Receipt.** The transmittal of TOP SECRET information shall be covered by a continuous receipt system both within and outside the facility.

c. **Serialization and Copy Number.** Each item of TOP SECRET material shall be numbered in series. The copy number shall be placed on TOP SECRET documents and on accountability records, distribution records, and receipts.

**5-203. Records for Confidential.** The control station(s) shall maintain a record of all CONFIDENTIAL material received by, or dispatched from, the facility. This record shall reflect as a minimum: (i) the date of the document, (ii) the date of receipt or dispatch, (iii) the activity from which received or to which dispatched, (iv) the classification of the material, and (v) a brief, unclassified description of the material. These records shall be retained by the contractor for 2 years from the date of the last entry.

**5-204. Receiving Classified Material.** When classified material is received at the facility, the following controls shall apply.

a. All classified material shall be delivered unopened to personnel designated by the contractor to receive it at a control station(s) to be entered into the accountability system. In addition, when U.S. Registered Mail, U.S. Express Mail, U.S. Certified Mail, or classified material delivered by messenger is not received directly by the designated control station personnel, procedures shall be established to ensure that such mail is received by appropriately cleared and authorized personnel for delivery with the inner container unopened to the control station(s).

b. The package shall be examined for any evidence of tampering and the classified

contents shall be checked against the receipt. Evidence of tampering shall be reported promptly to the CSO. If the material was received through the U.S. Postal System, the appropriate U.S. Postal Inspector shall also be promptly notified. Discrepancies in the contents of a package or absence of a receipt for TOP SECRET and SECRET material, shall be reported immediately to the sender. If the shipment is in order, the receipt shall be signed and returned to the sender. The name of the employee signing the receipt shall be printed, stamped, or typed on the receipt. If the sender includes a receipt with CONFIDENTIAL material, the receiver shall sign the receipt and return it to the sender if the contents of the package are in order.

**5-205. Dispatching Classified Material.** The following procedures apply when classified material is dispatched from the facility.

a. The proposed transmittal shall be examined to ensure that it is properly packaged for transmission.

b. Receipts, when required, shall identify the classified contents and the name and address of both the sending and receiving facilities. Receipts shall not contain classified information. A short title or abbreviation shall be substituted for a classified title, or the words "Classified Title" may be used.

c. A duplicate copy of the receipt shall be retained in a suspense file until the signed copy is returned. A suspense date (normally not to exceed 30 days) shall be established, and follow-up action shall be initiated if the signed receipt is not received within that period. If after follow-up action, a signed receipt is not returned or the addressee indicates nonreceipt of the classified material, an inquiry shall be conducted and loss of the material shall be reported to the CSO, if appropriate. Copies of signed receipts for classified material shall be retained at the control station for a minimum of 2 years.

**5-206. Generation of Classified Material.**

a. **TOP SECRET and SECRET Documents.** TOP SECRET and SECRET documents

generated by the contractor shall be entered into the accountability system when:

(1) completed as a finished document, including all copies.

(2) transmitted outside the facility.

b. **Working Papers.** Classified working papers, including but not limited to, notes, drafts, and drawings accumulated or generated by the contractor in the preparation of a finished document shall be:

(1) dated when created;

(2) marked with its overall classification, with any warning notices applicable, and with the annotation "**WORKING PAPERS.**" The other markings required for finished documents are not required for working papers. However, contractors are encouraged to use portion markings to the extent practical during preparation to aid in applying proper markings to the finished product;

(3) entered into the accountability system if retained for more than 30 days after creation for TOP SECRET or retained more than 90 days for SECRET, regardless of the stage of development;

(4) entered into the accountability system if TOP SECRET or SECRET, regardless of the stage of development, when transmitted outside the facility;

(5) safeguarded in accordance with the assigned overall classification; and

(6) destroyed when no longer needed.

c. **AIS Material.** AIS media shall be accounted for as specified in this paragraph.

(1) TOP SECRET and SECRET storage media shall be entered into accountability as soon as classified information is recorded on the media. Accountability is not required for CONFIDENTIAL storage media.

(2) Accountability is not required for individual files/documents contained on

the storage media regardless of the classification level involved; however, contractors must have a system which will identify the contracting activity, the classified contract, and a general description of the classified information contained on the storage media in the event of loss or compromise.

(3) Classified documents generated by an AIS shall be entered into accountability as required by a. and b. above for other classified documents.

d. **Other Material.** TOP SECRET and SECRET material, in other than documentary form, generated by the contractor, shall be entered into the accountability system when the first of any of the following events occurs:

(1) it reaches the final stage in the fabrication or manufacturing process.

(2) it is retained for more than 30 days from the date of origination.

(3) it is transmitted outside the facility, regardless of its stage of development.

e. **Incorporation of Classified Material.** When a classified document or other material is disassembled, joined to, incorporated in, made a part of another classified item, or a new classified item is created, accountability shall be established, terminated, or adjusted, as appropriate, as required by a, b, and c, above. The accountability records shall be posted accordingly.

**5-207. Inventory/Accounting of Classified Documents/Material.** Contractors shall make an annual inventory and accounting of TOP SECRET material held at the facility. When directed by a Director of Industrial Security, the contractor shall make an inventory and accounting of all SECRET material held at the facility. A report of all unresolved discrepancies shall be submitted to the CSO. The inventory and accounting shall consist of the actual sighting of each item listed in the accountability records or an examination of the evidence of its proper disposition (the receipt, certificate of destruction, authorization to terminate from accountability, or record of downgrading or declassification); and an examination of the contents of all containers authorized for storage of classified material to ensure that all TOP SECRET and SECRET material has been entered into the accountability records.

**5-208. Termination of Accountability.**

a. On notice from the CSO that accountability may be terminated for classified material determined to be lost after completion of the inquiries, the accountability record shall be annotated to show the date, reason, and authority for terminating accountability for the lost material.

b. If the location or disposition of the material should subsequently be determined, the contractor shall immediately submit a report to the CSO, and shall reestablish accountability for, or indicate correct disposition of, the material in the accountability records.

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